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gp ANNUAL REPORT

GENERAL PRODUCTS MFG. CORPORATION LIMITED

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DIRECTORS' REPORT

TO THE SHAREHOLDERS:

Despite the marketing problems of the smaller divisions and a serious work stoppage, combined sales were the highest in the company's history and incoming orders continued in a strong trend throughout the year. Pricing continued to be sensitive despite rising costs in the various industries. In some fields, foreign competition continued with increasing success to secure business at prices below anything possible to match with domestic production.

Additions and improvements to facilities continued high on the priority list and were of great assistance in reaching the levels of output obtained by year-end.

Negotiations for renewal of labour contracts were held in three plants with mixed results, as indicated elsewhere in this report. The continued high rate of production aided in combatting shrinkage of profit margins due to increases in the costs of materials, wages and services.

Net earnings for 1966 were only slightly higher than in 1965 because of the strike at Richards-Wilcox. The comparative figures, after income taxes applicable to the current year, were $485,055 as against $476,369.

Working capital showed a modest increase of $225,000, despite capital expenditures in excess of $1,300,000. The reduction in accounts receivable and part of the reduction in bank indebtedness at the year-end were attributable to the temporarily reduced level of activity at Richards-Wilcox in November and December, due to the enforced shut-down which took place at this division.

Dividends were maintained at the same rate as in 1965 and, as pointed out in last year's Report, part of the total disbursement was tax-free and part taxable.

In order to simplify the financial statement in future years, the Reserve for Contingencies and the small remaining balance of Tax-Paid Undistributed Income have been combined into Retained Earnings. Following the practice of previous years, the tax credit arising from the carry forward of taxable losses has also been added to Retained Earnings.

ARVIN-STANDARD LIMITED

This newcomer to the automotive field had another disappointing year and, with the entire facility engaged in the production of mufflers solely for the manufacturers of automotive vehicles, the opportunities for the Company to maintain any degree of flexibility were held to relatively narrow limits.

A mid-year assessment of the position of the Company, as reported at that time to its Board, focused attention on several controlling conditions. The Drury Plan, enacted shortly after the start-up of this enterprise, has worked to depress pricing and to alter marketing areas, which, combined with increased equipment and tooling requirements and the steadily mounting operational expenses characteristic of the times, have forced the break-even point upward to a level substantially higher than that contemplated in the original estimates. The conclusion was therefore reached that the continued operation of this business would be hinged on reaching a satisfactory earnings position during the 1967 model year, which commenced last September.

However, satisfactory earnings were not forthcoming by the end of the year and, with no relief in sight, the Board has regretfully authorized management to effect an orderly and prompt disposal of the business as presently constituted. As in prior years, General Products' share of losses for the year 1966 has been charged to operating income.

METAL FABRICATORS LIMITED

For several years, this division has operated on a marginal basis despite the addition more recently of subcontracting for other companies in the group.

At mid-year, however, the division was faced with demands for a new labour contract which it was impossible to meet without increased operating losses in future. In the circumstances, it was concluded that operations at Tillsonburg must, of necessity, be terminated.

Steps were taken immediately to return certain items of production to associated companies, to finish unshipped orders of a proprietary nature, and to take such other steps as to effect an early cessation of operations. These moves were completed during the fourth quarter.

RICHARDS-WILCOX OF CANADA LIMITED

During the year under review, incoming orders reached an all-time high and shipments exceeded those of any previous year, notwithstanding labour difficulties. Noteworthy was the steady growth in the materials handling field.

The additional shop facilities for large crane manufacture, provided late in the previous year, proved of value and by mid-year the small crane and monorail department was moved to adjacent quarters in order to achieve a consolidated operation. Need for additional space for light metal fabrication was taken care of by renovation of an idle building at the former hosiery mill property. At year-end, equipment was largely in place and production was underway.

As part of plans of the corporation for growth and development, the management structure, particularly relating to manufacturing operations, was given careful scrutiny and a realignment of the plant organization has been initiated.

Further studies of procedures, methods and plant equipment, including the use of specialized machines,

were continued and although capital costs of such equipment would be substantial, it is hoped that these steps would help to offset increased costs.

On the labour side, all was not well. After more than fifty years of existence without a strike, the unrest of present times resulted in a shutdown of manufacturing from mid-November to year-end, totalling seven weeks. The losses in wages, in cancelled orders and in incoming business were reasonably measurable, but of far greater importance is the effect on the competitive position of the company due to the substantial increases in wages and fringe benefits of the new contract.

The strong market for construction materials continued throughout the year and, when coupled to the delay of shipments in the last quarter due to the work stoppage, resulted in a heavy order backlog at year-end.

Effective at the year-end, some revisions were made in the overall corporate structure of the group, as part of which this fully-owned division is now operating under the name of Richards-Wilcox of Canada Limited.

STANDARD TUBE AND T.I. LIMITED

Sales volume rose to new heights by year-end and with minor exceptions all products contributed to the increased volume.

On the manufacturing side, the year was noted for substantial increases in output in both Woodstock and branch plants. The start-up problems of the tube mill installed in Winnipeg were overcome and this facility made a good showing for the year. The Montreal mill continued the rate of steady increase of previous years, again demonstrating its value as a branch operation.

The Drury Plan and its ramifications continued to be a major consideration in all phases of automotive parts production. In keeping with our practice since the inception of this Plan, capital expenditures were carefully assessed in relation to the question of the permanency of such business with respect to parts suppliers now operating in Canada and sufficient fabricating capacity was added to protect our competitive position.

Further to the capital programme, the acquistion of another $3^1/_2$" mill and the addition of substantial shop area by year-end provided a further increase in the general tube-making capacity at Woodstock. In total, the expenditures for the year for buildings and equipment were the largest in more than a decade.

Labour contracts were negotiated for Woodstock and Montreal, each for three-year duration. The monetary increases were reasonably in line with current year settlements and the negotiations were finalized without loss of production.

WITH REGARD TO 1967

The year now underway has given evidence of the first softening of demand that has occurred in recent years. The rate of order placement by Standard Tube customers, particularly in general tubing business, was noticeably slower in the early part of the year, although some improvement has been evident in recent weeks. However, the bustling start of the automotive car year in September has not been maintained and production of parts for the car builders has slackened in direct proportion to the reduced output of vehicles.

According to the forecasts, industrial and commercial construction projects are expected to maintain a high level of activity during the current year, and thus far the Richards-Wilcox order intake in these fields has continued to equal that of a year ago. It is hoped that the recent progress in the development of new and improved products will assist the company in staying in the foreground in the construction and materials handling industries.

While on balance the indicators point more toward a levelling-off of consolidated sales than toward a continuation of the upward climb of recent years, the major challenge of the year now underway lies in the area of cost control and the road will not be easy.

PERSONNEL

The Board lost a founding director and ever faithful member in the passing of Mr. W. H. McPhillips, M.B.E., in September. His counsel and assistance were of great value over his many years of association as officer and director.

CONCLUSION

Without the continued confidence of our customers and the endeavours of our employees, the degree of progress recorded herein could not have been achieved and these contributions are gratefully recognized by the Directors.

ON BEHALF OF THE BOARD OF DIRECTORS

J. H. Thompson

April, 1967 *Chairman of the Board*

President

GENERAL PRODUCTS MFG. CORPORATION LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31

	1966	1965
Earnings before depreciation and income taxes	$1,628,185	$1,542,752
Depreciation on fixed assets	341,763	313,833
Earnings before income taxes	1,286,422	1,228,919
Provision for income taxes (Notes 1 & 2)	801,367	752,550
Net earnings for the year	$ 485,055	$ 476,369

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1966	1965
Balance at beginning of year	$7,103,598	$6,371,940
Net earnings for the year	485,055	476,369
Adjustment of income taxes (Note 1)	149,000	214,000
Capital profit on sale of land	—	41,289
Transfer of reserve for contingencies	200,000	—
Transfer of tax-paid undistributed income	18,053	—
	7,955,706	7,103,598
Cash dividends paid	75,000	—
Balance at end of year	$7,880,706	$7,103,598

CONSOLIDATED STATEMENT OF TAX-PAID UNDISTRIBUTED INCOME

	1966	1965
Balance at beginning of year	68,053	193,053
Stock dividend paid (Note 5)	50,000	125,000
Transfer to retained earnings	18,053	—
Balance at end of year	—	$ 68,053

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1966

Note 1 The provision for income taxes includes $149,000 (1965 $214,000) not required due to the carry forward of taxable losses of prior years. This amount has been shown as a separate credit to retained earnings.

Note 2 The provision for income taxes includes $209,000 (1965 $157,000) added to the Provision for Deferred Income Taxes which consists of the accumulated income tax reductions resulting from claiming capital cost allowance for tax purposes in excess of recorded depreciation.

Note 3 Earnings in the consolidated statements of earnings and retained earnings are after provision for minority interest.

Note 4 Directors' Fees totalling $7,950 were paid during the year.

Note 5 During 1966, 200,000 shares of 3% non-cumulative redeemable second preference stock were issued as a stock dividend and subsequently redeemed.

Note 6 Authorized Capital:

5% cumulative redeemable preference stock - 4,356 shares, par value $100 per share.
3% Non-cumulative redeemable second preference stock - 1,300,000 shares, par value 25¢ per share (Note 5).
"A" Common stock - 125,000 shares of no par value.
"B" Common stock - 25,000 shares of no par value.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31

	1966	1965
CURRENT ASSETS		
Cash	$ 95,190	$ 43,826
Accounts Receivable	5,000,020	5,685,055
Inventories, at the lower of cost and net realizable value	5,537,018	5,639,166
Prepaid expenses	63,353	70,189
	$10,695,581	$11,438,236
CURRENT LIABILITIES		
Bank indebtedness	1,562,844	2,647,957
Accounts, payable and accrued	2,939,531	2,656,903
Income and other taxes	432,579	597,823
	4,934,954	5,902,683
WORKING CAPITAL	$ 5,760,627	$ 5,535,553
INVESTMENTS		
Allied company - shares at cost less provision for loss, and current account	467,666	460,364
Shares and securities of other companies, at cost	654,498	600,131
Special refundable tax	71,875	—
	$ 1,194,039	$ 1,060,495
FIXED ASSETS, at cost		
Land	311,743	336,150
Buildings	4,589,922	4,391,278
Machinery and equipment	7,110,079	6,373,353
	12,011,744	11,100,781
Accumulated depreciation	6,133,155	5,885,072
	5,878,589	5,215,709
NET ASSETS EMPLOYED	$12,833,255	$11,811,757
Represented by:		
SHAREHOLDERS' EQUITY		
Capital issued and outstanding: "A" Common stock - 75,000 shares	18,750	18,750
(Note 6) "B" Common stock - 25,000 shares	6,250	6,250
	25,000	25,000
Tax-paid undistributed income (under 105(i) of Income Tax Act)	—	68,053
Reserve for contingencies	—	200,000
Consolidated retained earnings	7,880,706	7,103,598
	7,905,706	7,396,651
MINORITY INTEREST	4,095,549	3,792,106
PROVISION FOR DEFERRED INCOME TAXES (Note 2)	832,000	623,000
	$12,833,255	$11,811,757

APPROVED: JOHN D. JUDGE, *Director*

APPROVED: D. G. WALLACE, *Director*

AUDITORS' REPORT

RIDDELL, STEAD, GRAHAM & HUTCHISON
CHARTERED ACCOUNTANTS

200 QUEENS AVENUE
LONDON, ONT.

To The Shareholders
General Products Mfg. Corporation Limited

We have examined the accompanying consolidated financial statements of General Products Mfg. Corporation Limited and its subsidiary companies for the year ended December 31, 1966, comprising the consolidated statement of financial position as at that date and the consolidated statements of earnings, retained earnings and tax paid undistributed income for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. The accounts of a division and certain subsidiaries included in the consolidated financial statements were examined and reported upon by other auditors.

In our opinion, based on our examination and the reports of the other auditors, the aforementioned consolidated financial statements, together with the notes thereto, present fairly the financial position of the companies as at December 31, 1966 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead, Graham & Hutchison

March 2, 1967.

GENERAL PRODUCTS MFG. CORPORATION LIMITED

HEAD OFFICE: 660 RICHMOND STREET, LONDON, CANADA

DIRECTORS

S. C. BACON
E. J. HOSACK
F. W. P. JONES
JOHN D. JUDGE
W. H. McPHILLIPS, M.B.E.*
R. W. ROBERTSON
V. T. ROSS
J. H. STEVENS
J. A. TAYLOR
A. S. THOMPSON
JAMES G. THOMPSON
J. G. THOMPSON
D. G. WALLACE

*deceased

OFFICERS

Chairman of the Board
J. G. THOMPSON 433-2377 superintent.

Vice-Chairman
A. S. THOMPSON

President
JOHN D. JUDGE

Vice-President
JAMES G. THOMPSON

Vice-President and Secretary
D. G. WALLACE

Treasurer
J. R. SWANN

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MANUFACTURING AND MARKETING OPERATIONS

STANDARD TUBE AND T. I. LIMITED

WOODSTOCK, HAMILTON, TORONTO, QUEBEC, MONTREAL, WINNIPEG, VANCOUVER

RICHARDS-WILCOX OF CANADA LIMITED

LONDON, HALIFAX, MONTREAL, TORONTO, HAMILTON, WINNIPEG, CALGARY, EDMONTON, VANCOUVER

ARVIN-STANDARD LIMITED (ALLIED COMPANY)

STONEY CREEK

PRINCIPAL PRODUCTS

STANDARD TUBE AND T.I. LIMITED

Electric Resistance Welded Steel Tubes and Pipes

Tubular Steel Fabrications

Seamless Mechanical and Pressure Steel Tubes

Welded and Seamless Stainless Steel Tubes

Aluminum Sheet, Plate, Tubes and Extrusions

Stacking Chairs and Tables

Materials Handling Equipment

"Explorer" Boat Trailers

Shop Furniture

RICHARDS-WILCOX OF CANADA LIMITED

Industrial and Garage Doors

Roof Scuttles and Access Doors

Airplane Hangar Doors

Electric Door Operators and Controls

Builders' Hardware

Movable Partitions

Spectator Seating

Gymnasium Equipment

Monorail and Conveyor Systems

Cranes and Hoists

ARVIN-STANDARD LIMITED
(ALLIED COMPANY)

Automotive Mufflers and Resonators